Selling soap to Nigeria: One Indian conglomerate goes beyond

India is the darling of investors looking to benefit from the rapid growth of emerging markets. But well-established Indian companies are looking for growth, too, and they are finding it in the developing world.

The Godrej Group, an Indian business conglomerate, sells everything from soaps and refrigerators to pesticides and spacecraft components. Established in 1897 as a lock-making business, the Mumbai-based family-controlled enterprise boasts some 500 million Indian consumers and an annual turnover of US$3.3 billion. Godrej Consumer Products (GCP) alone, its largest group and a leading player in India's fast moving consumer goods segment (FMCG), posted a 40 percent year-on-year increase in net profits for the quarter ended December 31, 2011.

Despite its immense reach within India, Godrej Group has its sights on being a player in the international arena. One-third of its consumer goods sales are today coming from international markets, countries as diverse as Nigeria, Indonesia and Argentina.

Adi Godrej, Group Chairman and third-generation family head, says his strategy is to put cash to work outside of India. "We really don't need capital investment for growth in India," he explains. "We thought we'd invest the additional capital for expanding in the developing world because [they] have similar economies, similar consumer attitudes and the bottom-of-the pyramid products that we specialise in India." Godrej spoke to INSEAD Knowledge on the sidelines of the INSEAD India Business Dialogue in Mumbai recently.

The company's international activities follow in the footsteps of several Indian companies. Indian-led cross-border deals have totalled US$129 billion in the last decade. Iconic U.K. car companies such as Jaguar and Land Rover are now part of India's Tata Group. In 2009, Indian telecommunications giant Bharti Airtel purchased the African assets of a Kuwaiti peer Zain for US$9 billion. It's a trend that's been noted by some analysts as a game changer for the future of business and Godrej in fact names domestic rivals – rather than Western companies - as his company's main competitors abroad. "Multinationals are not interested in buying smaller businesses in the developing world, they focus on their own global brands," he remarks. That leaves the Third World wide open to companies such as Godrej.

But with multiple Indian - and foreign - players scouring not only new markets and consumers but also access to new technologies and natural resources, how does Godrej place and manage its strategic bets? And what could slow the company's ambition?

A suitable match

Since its first foreign market foray in 2005, GCP has completed ten acquisitions, the latest a 60 percent stake in Chilean hair colour and cosmetics company Cosmetica Nacional.

It's an example of the company's three-by-three strategy: three product categories across three geographies - personal care, hair care and insecticides in Asia, Africa and Latin America. Godrej receives takeover recommendations from its cadre of trusted investment bankers. "We don't acquire anything unless we feel we can add value or the company can add value to our business," says Godrej. A decision to move forward is followed by tremendous due diligence, especially on the human resources in that company, he adds.

Godrej's general practice has been to allow acquired companies to manage themselves. "We don't try to interfere too much," says Godrej. "We, of course, promote the local brands and in most cases continue with people. What we take from India is basically our business processes which work very well in a developing economy, our technology and products which are designed for the bottom of the pyramid."

Indian firms have been successful at developing local managerial talent and pairing them with foreign management teams, acknowledges INSEAD professor of marketing Paddy Padmanabhan. Consumer goods companies have also been hesitant about pushing their own brands, relying instead on organic and inorganic growth strategies, he observes, citing a lesson learned from the experience of Coca Cola in India. The beverage giant lost significant market share to rival Pepsi by promoting its global Coke brand over a local favorite Thums Up. [Coca Cola purchased Thums Up in 1993 from Indian company Parle.]

Limiting factors

But middling results from recent takeovers has raised questions about Indian firms' abilities to globalise successfully. A recent study of India's four largest cross-border deals since 2007 by The Economist showed only one generating value thus far based on an analysis of gross operating profits and return on capital. Furthermore, India's share of global cross-border deals by value at 1.4 percent is paltry compared with China's 6.2 percent for the same period, the report highlights.

For Godrej, its steeped history and legacy as a family-owned business may also be its greatest limitation. Over the course of its 115-year history, the closely-held conglomerate has spun a complex business and holding structure with two broad groups – Godrej & Boyce and Godrej Industries - overseeing a wide array of products and service units. Only four are publicly traded companies. "Our biggest constraint is financial," Godrej candidly acknowledges, "we don't want to dilute our shareholding very much." The company has been careful to select and groom the next generation of family heirs, he assures, and its companies are largely managed by external professionals. Still, complex and convoluted ownership structures can slow them down when the family has to pay for new investments at the price of losing control by going outside the family circle for financing, says Padmanabhan.

Need for reforms

Beyond the quest for new markets and consumers, a dampening of India's growth momentum also explains some of Indian businesses making aggressive strides overseas. The country is growing, explains Padmanabhan, but reduced forecasts and the absence of business-friendly reforms has made domestic companies look elsewhere to expand.

Godrej echoed the imperative for reforms and the implementation of indirect tax reform, in particular, that would replace a cumbersome levy of central, state and local taxes with a simplified and integrated goods and service tax. Such reform ideally would reduce compliance burdens on companies and, he asserts, lower tax evasion and improve the country's fiscal balance as well as contain inflation.

Despite the policy constraints, Godrej remains extremely optimistic for India's long-term outlook. In the meantime, the company says it intends to slow down the pace of foreign buyouts and focus on integrating its acquisitions. "We have a good strategy and very good people to implement," but, he adds cautiously, "we must still pay a lot of attention on executing our strategy well."

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The INSEAD India Business Dialogue took place in Mumbai on February 25, 2012.

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